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SUBJECT: IRAN-AZERBAIJAN SNAPSHOT AND OVERVIEW

11. This cable provides a general unclassified snapshot of Iranian political, economic, and commercial activities in Azerbaijan, outlining apparent evolving Iranian regional priorities and recent and pending developments in bilateral political and economic relations. Many issues noted in the cable have been or will be the subject of more detailed reporting, and this overview will be updated periodically to ensure its continued utility as a general unclassified reference. In this context, comments, questions, and/or requests for inclusion of additional topics in future snapshots are welcomed.

1A. General Background

11. Iran made a major effort in the early 1990s toward economic and political subversion of Azerbaijan including subsidizing a pro-Iranian Islamist movement and other activities. These were mostly mopped up in the mid-1990,s by former President Heidar Aliyev, and subsequent bilateral relations have generally gravitated between mildly surly to smilingly correct (which is basically the current state).

12. Azerbaijan currently provides refuge to a small number of Iranian regime opponents, including monarchists and Iranian-Azerbaijani pan-Turks, autonomists, and separatists (far more ethnic Azeris live in Iran than Azerbaijan). Azerbaijan,s relatively cool posture towards Iran contrasts with its much warmer relations with Turkey, with which it frequently exchanges official visits.

13. Iran continues to make propagandistic TV broadcasts visible in the south of Azerbaijan, including a widely watched Azeri language current events show that includes gossip and stories embarrassing to the GOAJ, and often challenges the secular policies of the government. At the same time, economic cooperation is modestly increasing, and some irritants such as violations of Azerbaijani airspace and sea space by Iranian military have reportedly decreased greatly over the last few years.

Education: Iranian Students in Azerbaijan

14. More than 2,000 Iranian students are currently studying in Baku, most from Iranian Azerbaijan. Unlike students in Armenia and many other countries, these students are not entitled to GOI loans or subsidies, and many reportedly experience considerable harassment and red tape when they return to Iran. Ability to study in the Azeri language, freer life style, and relatively easy cash-based admissions policies at many Azerbaijani universities are key attractions

cited by Iranian student interlocutors.

¶5. For its part, Iran provides material support to some Farsi language schools, and allegedly entices village and lower-income Azerbaijani children with all-expenses paid Iran study scholarships (some reportedly including stipends for their families).

Possible Aliyev Visit to Iran

¶6. The desirability and even imminence of an official visit by President Aliyev is a frequent public theme of GOI diplomats, including Foreign Minister Mottaki. These assertions are almost invariably met with silence by the GOAJ. Some interlocutors assert that Aliyev is loath to visit Iran in the absence of concrete progress in areas of bilateral tension, including Caspian demarcation and de facto Iranian support for Armenia.

¶7. Nonetheless, an official visit to Iran by Aliyev is likely sometime during 2009, given recent geopolitical developments and related improved energy ties (see below). The GOAJ is also cognizant of the need to repay President Ahmadinejad's August 2007 official visit to Baku.

¶B. Regional Political Picture

¶8. The Russian invasion of Georgia cast a shadow over security and stability in the region. Though a bit slow off

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the mark, since the Georgian invasion Iran has been attempting to assert a position as a key regional player with a significant role to play in stabilizing the region.

¶9. Since last September, Foreign Minister Mottaki has made high profile visits to Baku, Moscow, and other regional capitals to lobby for an ill-defined Iranian Caucasus stability plan which appears to have gotten nowhere. Local interlocutors speculate that Iran welcomes increased Russian influence in the region so long as this comes at the expense of the U.S. and the West, and sees itself (not Russia) as the long-term winner in such an eventuality.

¶10. Iran may also be attempting to insert itself more aggressively as a player in the Armenia-Azerbaijan/Nagorno Karabagh issue, adopting a dismissive stance towards the Minsk Group (Russia, France, and the USA) that are the official mediators between Azerbaijan and Armenia.

Iran's &Me-Too8 Caucasus Plan

¶11. Iran was not included as a notional member of Turkey's proposed &Caucasus Stability Pact,8 postulated in early September. Iran's subsequent regional activity, including Mottaki's recent flurry of visits to neighboring capitals and vague talk of submitting a new Caucasus policy plan, does not seem to be paying off yet in terms of any significantly increased Iranian role or influence. Interlocutors here bluntly characterized Iran's recent Caucasus efforts as essentially catch-up and &me-tooism8 in response to the Turkish initiative.

C Economic Issues/Relations

Energy

¶12. For several weeks during the Russia-Georgia conflict, Azerbaijan reportedly utilized Iran as an outlet for some oil exports blocked from Georgian ports, and Iran has been quick to emphasize the value to Azerbaijan of maintaining this alternative energy route. Azerbaijan's state oil

company, SOCAR, announced in September that it will soon open a permanent office in Teheran, its third overseas office. Meanwhile, Iran and Azerbaijan have regularized the supply of gas and electricity to the Azerbaijani enclave of Nakchivan based on energy swaps, and is cooperating on a related border hydroelectric project.

Energy Infrastructure Issues

¶13. The Iranian company NICO, which serves as the National Iranian Oil Company's (NIOC) marketing arm, is a ten-percent partner in the large Shah Deniz energy consortium, which is Azerbaijan,s (and the Caspian Sea,s) largest offshore producer of gas. In addition, Iran (as well as Russia) continues to offer to buy all Shah-Deniz "Phase II" gas (thereby torpedoing current USG and European-supported plans for new pipelines bringing Caspian gas to Europe, and increasing the probability of an Iran-Europe energy connection). Neither this nor the Russian offer are currently taken seriously by the GOAJ, which (in addition to other reasons) prefers a direct tie to the European market.

¶14. As a consortium partner, NICO is also entitled to ten percent of the multi-billion-barrel oil condensate reserves also being tapped into at the Shah Deniz field, but due to international/USG sanctions, NICO is unable to ship its share of this condensate through the BTC pipeline. NICO reportedly plans to use a new energy terminal being constructed by a private Azerbaijani company, and a related proposed pipeline project, to transport its share of the oil condensate from Azerbaijan to Iran.

¶15. Iran also continues to tout to international oil companies in Baku its expanding energy infrastructure at the Caspian port of Neka, and a related proposal to build a new oil pipeline from Neka to Jask on the Indian Ocean.

Iran: Not a Business Magnet for Azerbaijanis...

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¶16. According to local interlocutors, Azerbaijani entrepreneurs have little interest in investing in Iran due to government interference and red tape, unreliability of Iranian contracts, and faster and more lucrative returns on investment offered domestically and by Russia, Ukraine, &and even Moldova.⁸ Most Iranian agricultural products and hard goods are also reportedly unattractive to Azerbaijani buyers, &due to issues of price and quality.⁸

Iranian Business Activities in Azerbaijan

¶18. In contrast, several local sources claim that Iranian traders and entrepreneurs are increasingly active in Azerbaijan. The Iranians are allegedly participating in the Baku construction boom by purchasing apartments and by providing wide varieties of inputs, including Iranian-produced plaster, marble, furniture, kitchen wares, and other materials. In addition, Iranian suppliers and shippers allegedly play a large role in the purchase and transportation to Azerbaijan of electronics, appliances, and similar items from the UAE. Iranians are also active in local service, tourism, and financial sectors.

¶19. For example, dual-citizenship Iranians own two Baku-based bank companies, a telecommunications/internet company, and agro-business and oil services companies, and manage the major international hotel. An undetermined number of Iranian-Azerbaijani (or other national) joint venture companies also operate here, including at least one insurance company that was shut down in March 2008 by the GOAJ Ministry of Finance due to unspecified &repeated violations.⁸ Many interlocutors report that tourism from Iran is visibly

increasing, and several travel agencies and small hotels are allegedly catering to this business.

Proposed Tri-Country Railroad

¶20. A proposed tri-country railroad consortium linking Iran with Russia through Azerbaijan could have a significant impact on regional commercial and economic relationships. Although the proposal has been around for several years, it may have picked up some steam recently following a Russian government commitment to underwrite a feasibility study to be completed by the end of this year. Both Iran and Russia have expressed strong support for this railroad, while GOAJ support has been more cautious.

¶21. A major alleged sticking point is alleged Iranian inability up to now to dedicate the estimated 280 million Euros needed to build its share of the proposed rail line; other issues include a possible connection to Armenia (opposed by Azerbaijan), and disputes within Azerbaijan over the political, commercial, and economic costs and benefits likely to result from the proposed project. According to some sources, GOAJ support for this project (assuming it is realizable) may be growing.

Iranian Medical Care: The Best in the Region?

¶22. Compared to other regional options, Iranian medical facilities and doctors are highly regarded, and Iran is reportedly increasingly favored as a destination over Azerbaijan and Russia by middle-class individuals in need of significant medical care. Even an ethnic Russian interlocutor asserted that, apart from expensive facilities in Moscow and Petersburg, the quality of Iranian medical care is the best in the region.

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